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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Telecommunications Division **RESOLUTION T-16697**
Carrier Branch * **December 17, 2002**

R E S O L U T I O N

RESOLUTION T-16697. THE VOLCANO TELEPHONE COMPANY. (U-1019-C). GENERAL RATE CASE FILING IN COMPLIANCE WITH G. O. 96-A, PARAGRAPH VI, AND DECISION NUMBERS 01-02-018 AND 01-05-031.

BY ADVICE LETTER NO. 282 FILED DECEMBER 20, 2001.

Summary

This Resolution addresses the General Rate Case filed by The Volcano Telephone Company (Volcano) through Advice Letter (AL) No. 282 in December 20, 2001 in compliance with Decision 01-05-031. In AL No. 282, Volcano proposes: a) no changes in its rates or charges, b) an intrastate Rate of Return of 10%, and c) a decrease in its California High Cost Fund-A (CHCF-A) draw for 2003 by 10% or a reduction of $590,805 from its 2002 draw.

This resolution authorizes CHCF-A support of $3,775,457 for Volcano for the year 2003. This amount represents a reduction of $2,036,209 or 35.04% decrease from the CHCF-A 2002 support of $5,811,666 to Volcano. This resolution further authorizes an overall Intrastate Rate of Return of 10.00% for test year 2003, resulting in an intrastate revenue requirement reduction of $2,187,018 from present rates.

Appendix A to this resolution compares the Telecommunications Division (TD) and the Volcano's Test Year 2003 Total Company Results of Operations before any CHCF-A reduction. Appendix B compares TD's and Volcano's Interstate and Intrastate Results of Operations before any CHCF-A reduction while Appendix C compares TD's and Volcano's Intrastate Results of Operations estimates after Volcano's proposed CHCF-A reduction and after TD's proposed revenue, expense, and rate base deductions. Appendix D shows TD's calculation of the Net-to-Gross Multiplier and the change in

the gross intrastate revenue requirement based on the recommended intrastate rate of return of 10.00%.

Background

The Volcano Telephone Company (Volcano), a local exchange telephone utility based in Pine Grove, California, provides local exchange telephone service in Pine Grove, Pioneer, Volcano, West Point, Kirkwood Meadows, Wilseyville and adjacent territory in portions of: Alpine, Amador, Calaveras, and El Dorado Counties. Volcano serves approximately 11,707 access lines in its four telephone exchanges: Kirkwood Meadows, Pine Grove, Pioneer and West Point.

In D.01-05-031, the California Public Utilities Commission (CPUC) set in motion the waterfall[1] provision in 2002 for six small LECs if they do not each file a General Rate Case (GRC) by the end of 2001.[2] Volcano filed Advice Letter No. 282 on December 20, 2001, with a Test Year of 2003. The last GRC filed by Volcano was in 1995 through AL No. 206 and its latest intrastate results of operations was authorized by Resolution T-16007 dated April 9, 1997.[3]

In AL 282, Volcano proposes: a) no changes to its rates or charges, b) an intrastate ROR of 10%, the same rate granted in its previous GRC filing in 1997, and c) a decrease in its CHCF-A draw for 2003 by 10% or a reduction of $590,805 from its 2002 draw.

Notice/Protests

Volcano states that a copy of the Advice Letter was mailed to competing and adjacent utilities and/or other utilities. Notice of AL 282 was published in the Commission Daily Calendar of December 24, 2001. No protest to this Advice Letter has been received.

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[1] The waterfall provision refers to the 6-year phase down of the CHCF-A funding level beginning in 1998, the year after the completion of a GRC. The funding levels are 100% of the for the first 3 years, i.e., 1998, 1999 and 2000; 80 % the fourth year, i.e., 2001, 50% the fifth year, i.e., 2002; and 0% thereafter.

[2] The six companies are Evans Telephone Company, Happy Valley Telephone Company, The Ponderosa Telephone Company, Sierra Telephone Company, Inc., The Siskiyou Telephone Company, and The Volcano Telephone Company.

[3] In Resolution T-16007, Volcano was granted the following: a general rate reduction of $403,218 for 1997, net revenue amount of $2,120,660 a rate base amount of $21,206,615, a Rate of Return of 10.00%, a 2.90% billing surcredit effective May 1, 1997, a temporary billing surcredit of 5.74% effective May 1, 1997 through December 31, 1997, to refund overcollection of rates charged during the months of January through April 1997, elimination of Volcano's Non-Published Service charge (Schedule A-12) effective May 1, 1997, detariff of Dial Mobile Radiotelephone Service, approval of the Depreciation Study submitted in support of AL 206, and an effective date of January 1, 1997.

Notice of the AL filing was made to customers by bill insert on December 19, 2001. No protest to this AL filing has been received.

Staff of TD held a Public Meeting in Jackson on June 14, 2002, at which time Volcano was given an opportunity to explain its filing to its customers and its customers were given the chance to ask questions of Volcano and the TD staff. Volcano's customers were given notice of the Public Meeting through bill inserts. The notice of Public Meeting was also published in the June 3, 2002 issue of the CPUC Daily Calendar. No customers attended the Public Meeting.

Discussion

Results of Operations

Appendix A compares Volcano's total company results of operations for test year 2003, as estimated by the TD staff and Volcano.

Total Operating Revenues

A comparison of TD's and Volcano's estimates of total operating revenues for test year 2003 is shown in Appendix A. Volcano's estimate of total company operating revenues at $16,097,707 is less than TD's estimate of $17,040,008 by $942,301 or 5.5%.

In determining the test year total company revenues, TD accepted Volcano's 2.4% percent increase used for revenue items that are derived from billings. This includes basic local service, local Private Line revenue, customer inside wire, and state switch access. In deriving the 2.4% increase, Volcano used the annualized 2001 data to estimate 2002 and 2003 revenue for these items. TD accepts the 2.4 % growth rate increase used by Volcano based on the historical average access line growth, field inspection of the areas served by Volcano, and discussion with Amador County planning officials. TD staff finds reasonable Volcano's estimates for the following items: other local revenue, directory and other regulatory revenues.

Volcano's projection for miscellaneous revenues is lower than TD's estimate by $107,079 or 39.5%. Volcano's use of regression analysis to project rent revenue of $23,800 for 2003 was not acceptable to TD as the coefficient of determination, at 35.89%, was too low. The coefficient of determination measures the strength of the relationship between the actual historical figures and the regression revenue calculations. A coefficient of determination closer to one (100%) indicates a greater degree of relationship; while a coefficient of determination closer to zero indicates a lesser degree of relationship. Instead, TD used Volcano's 2001 actual recorded rent revenue of $139,979 for 2002 and 2003.

In the case of the billing surcharge assessed against basic local service adopted in Resolution T-16007, Volcano's Test Year results maintained the surcredit of 2.9%. TD staff eliminated this in view of the new GRC filing. It has been the Commission's policy that, in general rate cases, billing surcharges are eliminated, or set as low as possible, in order to promote clarity in customer billing.[4]

For uncollectibles, TD used the six year average percentage rate over basic local service billings (1996-2001) instead of Volcano's proposed four year average (1998-2001), thereby decreasing the uncollectible rate from 2.6% to 2.1%.

For Federal USF Support, TD used the 2003 projected USF payments for the California Exchange carriers as filed by the National Exchange Carriers Association, Inc. (NECA) on October 1, 2002 with the Federal Communications Commission.[5] Volcano estimated USF Federal Support for 2003 to be $586,685. NECA projected this to be $1,423,062.

TD staff did not increase any of the rates/charges for any of the services offered by Volcano for the following reasons:

1. Currently, local rates for residential and business services are higher than in the surrounding areas served by Pacific Bell.

2. Volcano's current residential rates are already above 150% level of Pacific Bell's urban rates.

3. Rates for services not covered by the 150% threshold are already substantially higher than Pacific Bells. For example, residential and business call waiting are $0.77 (23%) and $2.76 (71%) higher, respectively.[6]

4. Volcano's rates are higher than Evans Telephone Company, an LEC with a comparable customer base size.

Total Operating Expenses

For operating expenses, Volcano projected end of year 2001 data using regression analysis. After deriving the end of year estimates, Volcano performed two iterations for estimating expenses for 2002 and 2003: a) using the projected end of 2001 data, applied regression analysis to derive the 2002 and 2003 data, and b) using the end of year estimate for 2001, multiplied these by 5% to get the 2002 estimates and by 3% to get the 2003 estimates. Volcano chose to use the second scenario.

[4] D.84-06-111, page 342, Finding of Facts – Pacbell Rate Design No. 90, mimeo.
[5] Based on Data provided by the National Exchange Carrier Association, Inc. on October 21, 2002.
[6] Volcano estimates that an increase of $0.50 in the rates for non-essential services would result in a 20% reduction in the volume of subscribers.

TD does not agree to Volcano's selective use of methodology, i. e., using regression analysis to estimate the 2001 end of year figure for each expense item and then applying percentage increases to derive the 2002 and 2003 figures. Furthermore, the cooefficient of determination results are too low (.02% to 81%) for TD to accept the end of year 2001 expense estimates as proposed by Volcano.

Instead, TD used Volcano's recorded expenses in terms of labor and non-labor expenses and applied the constant dollar method to estimate Volcano's 2003 expenses. The constant dollar method is used to convert nominal dollars to inflation-adjusted figures. This is done by using the inflation factors for each year and compounding them to 2001 dollars. The constant dollar method is applied to benchmark the constant price of a basket of utility purchases in various years to a selected base year. While expenses have been increasing in nominal dollars, when one applies the constant dollar method and adjusts the recorded figures to base year constant dollars, there is less of a variance and in many cases, the inflation-adjusted figures remained relatively flat. TD used Volcano's recorded expense figures as reflected in the annual reports for the years 1999, 2000 and 2001[7] and then applied the recorded inflation factors for labor and non-labor for each year. [8]

Volcano is proposing the adoption of a new depreciation study to revise the lives of certain assets, notably Current Operating Expenses - Digital and Current Switches, which increases from 7.15% and 5.50% to 15.58% and 15.58%, respectively. Depreciation rates for other assets such as buildings, furniture, office equipment including communications equipment, general purpose computers and aerial outside plant showed a decrease from the present depreciation rates. Compared to the present overall depreciation rate of 8.12%, the proposed overall depreciation rate will only increase by 0.22%.

TD asked Volcano to justify the increase in the rates specifically for Current Operating Expenses - Digital and Current Switches. Volcano explained that the service life for their primary switch located in Pine Grove was shortened since the utility had plans to replace this switch in the next two years. The DMS 100 switch was installed in the 1980s

[7] Form M Schedule I-1 (FCC Armis 43-02 Report Format) of Volcano's Annual Reports for 1999, 2000 and 2001.
[8] TD used the Office of Ratepayers Advocates estimates of Non-Labor and Wage Escalation Factors for 2002-2004 from the March 2002 DRI-WEFA U.S. Economic Outlook as follows:

Year	Labor	Non-labor
2000	1.022	1.036
2001	1.034	1.000
2002	1.028	0.999
2003	1.018	1.018
2004	1.026	1.021

and there are indications that the service support for this primary switch may not be available in the near future. Volcano is planning to replace the existing DMS 100 switch with a new type of packet switch.

TD finds Volcano's justifications for revising the rates reasonable and therefore accepts Volcano's revised depreciation rates.

A comparison of TD's and Volcano's computation of total company operating expenses shows that overall Volcano's estimate to be $326,296 or 3.2% higher than TD's estimate of $10,226,466 (Appendix A).

Taxes

The differences in the tax estimates between Volcano and TD are due to differences in each party's estimate of income, revenue and expense. TD and Volcano both used a Corporate State Franchise Tax (CCFT) rate of 8.84% and a federal income tax rate of 34.00%.

Rate Base

In estimating its test year Rate Base, Volcano included Construction Work in Progress of $1,200,000 (CWIP) for plant additions. The CWIP plant additions include: replacement of sewer system in the main office building, upgrading of central office equipment and facilities, upgrade of related Advanced Fiber Communications (AFC) equipment in remote switches, and software updates. The AFC equipment will only be used in the central office and interexchange facilities between Pacific Bell and Volcano and in upgrading the AFC equipment in remote switches.

TD staff used the updated 2001 construction work in progress amount of $844,257 to project the latest average amount for test year 2003.

For customer deposit, Volcano used 7 months actual 2001 data and annualized this amount to project its end of year 2001 customer deposit of $17,494. Volcano used this estimate for both 2002 and 2003. TD used the actual recorded 2001 data of $10,950 for both 2002 and 2003.

In computing plant in service, TD reviewed Volcano's 2001 annual report, examined the additions and retirements as reflected in the annual report vis-à-vis the data reflected in Volcano's submitted GRC proposal. Additions and retirements that were not reflected in the 2001 annual report were moved by TD to 2002. This, in effect, slid some additions and retirements back a year. For example, in 2001, Volcano proposed the retirement of $130,000 and $40,000 for CO digital and computers, respectively. However, TD staff discovered that these were not reflected in their annual report for 2001. Thus, TD added these amounts to the retirements scheduled for 2002. TD reviewed Volcano's plant in service estimate for 2003 and found it to be reasonable.

Depreciation expense was computed using TD's plant in service estimates for 2002 multiplied by the current depreciation rates to derive the 2002 figure. To estimate the 2003 figure, TD used TD's projected depreciation expense for 2002 and multiplied these figures by the new depreciation rates.

Volcano used 0.50% of the average plant balance in determining its test year materials and supplies. Based on the recorded ratio of materials and supplies expense to plant in service for the past three years, TD finds this assumption reasonable.

TD's estimate of working cash at $724,808 is 10.4% lower than that computed by Volcano. This difference is due to TD's lower revenue and expense estimates.

Separations

Volcano provides both intrastate and interstate telecommunications services, subject to the regulation of the CPUC and FCC, respectively. Because Volcano's property serves both jurisdictions, the utility's revenues, expenses, taxes, investments, and reserves are allocated between interstate and intrastate services.

Separations is the process of apportioning a telephone company's property costs, related reserves, operating expenses and taxes, and revenues between the state and interstate jurisdictions. It is a vehicle by which a telephone company can separately identify the amount of expenses, investments and revenues associated with the production of a given service. These apportionments are made on the basis of relative usage and direct assignment whenever possible. The costs to be apportioned are identified in the FCC Part 36 separations manual, according to the classification of accounts as prescribed by the FCC's Part 32, Uniform System of Accounts (USOA) for Telecommunications Companies.

Volcano used separation factors based on its year 2000 cost studies. TD has reviewed Volcano's separation factors and finds them reasonable. Therefore, TD used the separation factors provided by the company to separate its estimates of total company expenses and plant to derive TD's estimate of Volcano's intrastate results of operations.

Appendix B compares Volcano's and TD staff's interstate and intrastate results of operations for test year 2003 using these separation factors.

Cost of Capital

Volcano requests an overall intrastate rate of return of 10.00%, the rate of return authorized by Resolution T-16007 in Volcano's 1997 test year.

TD believes that the Return on Equity for all rural ILECs would be the same since the systematic and non-diversifiable risks faced by all rural ILECs are similar. However, as a matter of practice, Decision D.97-04-036 in A.95-12-073[9] adopted an 'overall' rate of return of 10.00% for all rural ILECs. Based on information provided, TD recommends that the Commission approve Volcano's request for an overall rate of return of 10.00% at this time. This approval should not set a precedent for any future or pending small ILEC GRC proceeding.

Net-to-Gross Multiplier

The net-to-gross multiplier indicates the unit change in gross revenues required to produce a unit change in revenues. Appendix D shows TD's computation of Volcano's net-to-gross multiplier. The net-to-gross multiplier of 1.66207 means that a change of $1,662 in gross revenue would be required to produce a change of $1,000 in net revenue. For Volcano, based on an adopted state rate base of $19,935,375 and an adopted rate of return of 10%, the adopted intrastate revenue requirement change required is a reduction of $2,187,018.

CHCF-A Support

Volcano's CHCF-A support for test Year 2003 at present rates of $5,962,475 was derived using Volcano's 2002 draw of $5,811,666, adding the $904,036 projected USF Federal support for 2002, deducting Volcano's projected 2003 USF Federal support of $586,685 and deducting the non-recurring cost of $166,542.[10]

In 2002, Volcano's draw from the CHCF-A was $5,811,666, of which $166,542 represents nonrecurring costs, specifically its 2001 IntraLATA Presubscription Expenses and change in its weighting of Digital Equipment Minutes (DEM). [11] Dial equipment minutes are the minutes of holding time of originating and terminating local dial equipment. For small local exchange carriers, the DEM is weighted or multiplied to allocate additional costs to the interstate jurisdiction.

The intrastate results of operations at present rates show that Volcano registers an intrastate rate of return of 16.60% (Appendix B, column F).

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[9] In D.97-04-036 the Commission authorized California-Oregon Telephone Company a 10.00% return on rate base for its 1997 test year as requested in A. 95-12-073 (California-Oregon's 1997 General Rate Case application).
[10] CHCF-A Implementation Rules in accordance with guidelines summarized in the Appendix of D.91-09-042.
[11] Resolution T-16619, page 8 and Page 16 of the Appendix.

Appendix C identifies Volcano's adopted intrastate results of operations using the 10.00% intrastate rate of return.

For test year 2003, TD 's computation of Volcano's CHCF-A requirement is $3,775,457 based on adopted revenues, expenses, rate base and overall intrastate rate of return of 10.00%.

Comments

The draft resolution of the Telecommunications Division on this matter was mailed to the parties in accordance with PU Code Section 311 (g)(1).

On December 2, 2002, Cooper, White & Cooper, LLP, filed timely comments on behalf of Volcano. Cooper, White & Cooper, LLP points out two errors in the draft resolution:

1) TD's exclusion of CWIP in the rate base; and

2) TD's understatement of the test year expenses due to the use of the constant dollar method for forecasting test year expenses. Cooper, White & Cooper also pointed out some typographical errors in the draft resolution.

With regard to the exclusion of CWIP, Cooper, White & Cooper points out that CWIP has consistently been included in the rate base in previous rate cases involving the small LECs in the computation of the rate base. Specifically, the Commission, in Volcano's 1997 rate case Resolution T-16007, approved the inclusion of $3,449,863 representing CWIP. Likewise, the Commission also consistently allows CWIP in Volcano's annual CWIP filings. Thus, the exclusion of CWIP is in direct contradiction of the Commission's policies and procedures on the preparation and filing of general rate cases. Volcano's reliance on the recovery of the CWIP in the rate base has influenced Volcano's investment plans.

On the use of the constant dollar method in estimating expenses, Cooper, White & Cooper, LLP argues that this method assumes that utility's operations are exactly the same as the average for 1999, 2000 and 2001. The only expense change recognized by the constant dollar method, therefore, is a change in the price of doing the same level of operations and does not account for increased expenses due to growth. Cooper, White & Cooper points out that in 2003, Volcano will incur additional expenses arising from the following: 1) additional maintenance expenses due to the increase in its plant investment by 28% from the 1999 level; 2) additional costs in responding to data requests from the Commission; and, 3) consultancy fees for the conduct of studies/activities arising from new FCC and CPUC regulatory actions. Cooper, White and Cooper recommends the application of the constant dollar method in 2001, instead of applying it on the average of 1999, 2000 and 2001 expenses.

TD's Responses to Comments

TD acknowledges that the Commission has historically allowed the inclusion of CWIP in the rate base in general rate cases and in the annual CHCF-A filings. TD's recommendation of excluding total company CWIP of $844,257 in the rate base is premised on the fact that it is not used to provide service to current customers and that the utility is allowed to capitalize the financing costs of their CWIP under Allowance for Funds Used During Construction (AFUDC). TD also acknowledges that AFUDC is an income statement item and does not help the utility's cash flow; rather it allows the utility to recover the costs of financing at a later date when the plant is placed in service. TD likewise acknowledges that by excluding the CWIP now, when the plant is completed and included in the rate base, the additional cost will be CWIP plus the financing costs. As AFUDC has no impact on the cash flow, the utility's financial integrity may be negatively affected. Since Volcano included CWIP in their rate base, no AFUDC was provided for.

TD recognizes the adverse effect the exclusion of short term CWIP could have on Volcano's finances and the benefit the customers would derive from paying for the construction costs as they occur rather than paying for the additional financing costs for the life of the assets through AFUDC and additional depreciation expense. TD, therefore, adopts Volcano's recommendation to include an average short term CWIP of $844,257 in the 2003 test year rate base estimate. This revises the intrastate rate base from $19,321,020 to $19,935,375.

On the issue of the use of the constant dollar method, TD finds no reason to deviate from this Commission approved and accepted methodology. The Commission in Siskiyou's 1997 test year rate case proceeding discussed and adopted Commission staff's use of the constant dollar methodology. In Finding of Fact 6 of Resolution T-16006, the Commission found "…TD's methodology in estimating expenses reasonable and adopt TD's recommended test year 1997 expenses contained in Appendix A." [12] A comparison of TD's expense proposal and Volcano's updated proposal shows a difference of only $9,873.

On the argument that the constant dollar method does not take into consideration the growth of investments by 28% in 2003 from the 1999 level, the detailed expense tables provided by TD to Volcano shows that there is an increase of 2% in expenses (less

[12] At page 5 of Resolution T-16006, the Commission stated, "Generally for traditional GRCs, the Commission adopts the constant dollar method".

depreciation) in 2003 from the 1999 level. The amount of $5,328,815, which is used as the base year figure already incorporates actual growth.

TD has incorporated short term CWIP in rate base, including the ancillary effects on other estimates, and corrected the typographical errors in this draft resolution. We find TD's current revisions and estimates reasonable.

Commission approval is based on the specifics of this Advice Letter and does not establish a precedent for the contents of any future filings by small ILECs.

Findings

1. Volcano filed its GRC on December 20, 2001, with a Test Year of 2003 in compliance with Decision 01-05-031.

2. Volcano requests the following for test year 2003:

    - No change in its rate or charges,
    - An intrastate rate of return of 10.00%, the same return granted to them in their last GRC filing in 1997, and
    - A reduction in its CHCF-A draw for 2003 by 10% or $590,805 for a 2003 CHCF-A support of $5,220,861.

3. The Telecommunications Division recommends the following for Volcano for test year 2003:

    - No change in its rate or charges;
    - A total intrastate rate base amount of $19,935,375;
    - An Intrastate Rate of Return of 10.00%;
    - An intrastate revenue requirement reduction of $2,187,018 at present rates; and
    - A California High Cost Fund-A (CHCF-A) support of $3,775,457 representing a reduction of $2,036,209 or 35.04% decrease from the CHCF-A 2002 support.

4. The differences in the estimates of Volcano and TD result from the use of different assumptions and methodologies for estimating revenues, expenses, and rate base.

5. We find TD's methodology of using the constant dollar method in estimating expenses reasonable and adopt TD's recommended test year 2003 expenses contained in Appendix A.

6. We find TD's methodology in estimating revenues reasonable. We therefore, adopt TD's recommended intrastate revenues as shown in Appendix C.

7. We accept TD's recommended overall rate of return of 10.00% for Volcano for test year 2003.

8. We find Volcano's revised Depreciation Study acceptable for ratemaking purposes for test year 2003.

9. We find TD's recommended $3,775,457 CHCF-A support for Volcano for 2003 acceptable. The $3,775,457 CHCF-A support is based on our adoption of TD's Intrastate Results of Operations for Volcano for test year 2003.

THEREFORE, IT IS ORDERED that:

1. The intrastate revenues, expenses, and rate base amounts for test year 2003 identified in Appendix C, column (E) are adopted for The Volcano Telephone Company.

2. The overall intrastate rate of return of 10.00% is adopted for Volcano fro test year 2003.

3. The revised Depreciation Study submitted by The Volcano Telephone Company in support of its 2003 General Rate Case Advice Letter No. 282 is adopted.

4. The Volcano Telephone Company's CHCF-A draw for 2003 is $3,775,457.

This Resolution is effective today.

I hereby certify that this Resolution was adopted by the Public Utilities Commission at its regular meeting on December 17, 2002. The following Commissioners approved it:

WESLEY M. FRANKLIN
Executive Director

APPENDIX A

THE VOLCANO TELEPHONE COMPANY
TOTAL COMPANY RESULTS OF OPERATIONS
AT PRESENT RATES
TEST YEAR 2003

				UTILITY EXCEED STAFF	
					PERCENT
		VOLCANO	**TD**	**AMOUNT**	**DIFF.**
		(A)	(B)	(C)	(D)
OPERATING REVENUES:					
1	Local Network Services	3,101,584	3,210,684	(109,100)	(3.4)
2	Local Services - CHCF-A	5,962,475	5,962,475	0	0.0
3	Interstate USF	586,685	1,423,062	(836,377)	(58.8)
4	Long Distance Network	0	0	0	0.0
	Network Access Svces:				
5	Intrastate	2,328,801	2,328,801	(0)	(0.0)
6	Interstate	4,037,354	3,910,325	127,029	3.2
7	Miscellaneous	163,900	270,979	(107,079)	(39.5)
8	LESS: Uncollectible Rev.	(83,092)	(66,318)	(16,774)	25.3
9	**Total Oper. Revenues**	**16,097,707**	**17,040,008**	**(942,301)**	**(5.5)**
OPERATING EXPENSES:					
10	Plant Specific	1,945,100	1,850,097	95,003	5.1
11	Plant Non-Specific (less depr.)	818,800	785,362	33,438	4.3
12	Depreciation & Amortization	4,746,062	4,711,122	34,940	0.7
13	Customer Operations	1,046,500	1,000,994	45,506	4.5
14	Corporate Operations	1,996,300	1,878,891	117,409	6.2
15	**Total Oper. Expenses**	**10,552,762**	**10,226,466**	**326,296**	**3.2**
TAXES:					
16	Taxes Other Than Income	318,478	314,019	4,459	1.4
17	State Income Taxes	423,002	537,033	(114,031)	(21.2)
18	Federal Income Taxes	1,483,109	1,882,922	(399,813)	(21.2)
19	**Total Operating Taxes**	**2,224,589**	**2,733,974**	**(509,385)**	**(18.6)**
20	**Net Revenues**	**3,320,356**	**4,079,568**	**(759,212)**	**(18.6)**
AVERAGE RATE BASE					
21	Telephone Plant-in-Service	63,440,519	62,776,949	663,570	1.1
22	Tel. Plt Under Construction	1,200,000	844,257	355,743	0.0
23	Mat & Supplies	319,150	313,885	5,265	1.7
24	Working Cash	800,114	724,808	75,306	10.4
25	Less: Deprec. Res.	(34,668,885)	(34,394,220)	(274,665)	0.8
26	Def. Taxes	(2,888,992)	(3,141,785)	252,793	(8.0)
27	Customer Deposit	(17,494)	(10,950)	(6,544)	59.8
28	Rural Telephone Bank (RTB) Stock	154,408	154,408	0	0.0
29	**Total Rate Base**	**28,338,820**	**27,267,352**	**1,071,468**	**3.9**
30	**Rate of Return**	**11.72%**	**14.96%**		

APPENDIX B

THE VOLCANO TELEPHONE COMPANY
RESULTS OF OPERATIONS AT PRESENT RATES
INTERSTATE AND INTRASTATE
TEST YEAR 2003

		VOLCANO			TD		
		Subject To Separations (A)	**Interstate** (B)	**Intrastate Total** (C)= (A-B)	**Subject To Separations** (D)	**Interstate** (E)	**Intrastate Total** (F)= (D-E)
OPERATING REVENUES:							
1	Local Network Services	3,101,584		3,101,584	3,210,684		3,210,684
2	Local Services - CHCF-A	5,962,475		5,962,475	5,962,475		5,962,475
3	Interstate USF	586,685		586,685	1,423,062		1,423,062
4	Long Distance Network	0		0	0		0
	Network Access Svces:						
5	Intrastate	2,328,801		2,328,801	2,328,801		2,328,801
6	Interstate	4,037,354	4,037,354	0	3,910,325	3,910,325	0
7	Miscellaneous	163,900	46,100	117,800	270,979	39,700	231,279
8	LESS: Uncollectible Rev.	(83,092)		(83,092)	(66,318)		(66,318)
9	**Total Oper. Revenues**	**16,097,707**	**4,083,454**	**12,014,253**	**17,040,008**	**3,950,025**	**13,089,983**
OPERATING EXPENSES:							
10	Plant Specific	1,945,100	548,736	1,396,364	1,850,097	521,935	1,328,162
11	Plant Non-Specific (less depr.)	818,800	242,270	576,530	785,362	232,376	552,986
12	Depreciation & Amortization	4,746,062	1,317,469	3,428,593	4,711,122	1,307,770	3,403,352
13	Customer Operations	1,046,500	132,046	914,454	1,000,994	126,304	874,690
14	Corporate Operations	1,996,300	487,087	1,509,213	1,878,891	458,440	1,420,451
15	**Total Oper. Expenses**	**10,552,762**	**2,727,608**	**7,825,154**	**10,226,466**	**2,646,825**	**7,579,641**
TAXES:							
16	Taxes Other Than Income	318,478	100,730	217,748	314,019	99,320	214,699
17	State Income Taxes	423,002	100,359	322,643	537,033	96,244	440,789
18	Federal Income Taxes	1,483,109	351,875	1,131,234	1,882,922	337,446	1,545,476
19	**Total Taxes**	**2,224,589**	**552,964**	**1,671,625**	**2,733,974**	**533,010**	**2,200,964**
20	**Net Operating Revenue**	**3,320,356**	**802,882**	**2,517,474**	**4,079,568**	**770,190**	**3,309,378**
AVERAGE RATE BASE							
21	Telephone Plant-in-Service	63,440,519	17,220,104	46,220,415	62,776,949	17,039,987	45,736,962
22	Tel. Plt Under Construction	1,200,000	325,724	874,276	844,257	229,163	615,094
23	Mat & Supplies	319,150	74,879	244,271	313,885	73,644	240,241
24	Working Cash	800,114	360,904	439,210	724,808	338,861	385,947
25	Less: Deprec. Res.	(34,668,885)	(9,675,912)	(24,992,973)	(34,394,220)	(9,599,255)	(24,794,965)
26	Def. Taxes	(2,888,992)	(829,294)	(2,059,698)	(3,141,785)	(901,859)	(2,239,926)
27	Customer Deposit	(17,494)	(4,749)	(12,745)	(10,950)	(2,972)	(7,978)
28	Rural Telephone Bank (RTB) Stock	154,408	154,408	0	154,408	154,408	0
29	**Total Rate Base**	**28,338,820**	**7,626,064**	**20,712,756**	**27,267,352**	**7,331,977**	**19,935,375**
30	**Rate of Return**	**11.72%**	**10.53%**	**12.15%**	**14.96%**	**10.50%**	**16.60%**

APPENDIX C

THE VOLCANO TELEPHONE COMPANY
INTRASTATE RESULTS OF OPERATIONS
AT ADOPTED RATE OF RETURN
TEST YEAR 2003

		VOLCANO PROPOSED	TD PROPOSED	UTILITY EXCEED STAFF AMOUNT	UTILITY EXCEED STAFF PERCENT DIFF.	ADOPTED
		(A)	(B)	(C)	(D)	(E)
OPERATING REVENUES:						
1	Local Network Services	3,101,584	3,210,684	(109,100)	(3.4)	3,210,684
2	Local Services - CHCF-A	5,220,861	3,775,457	1,445,404	38.3	3,775,457
3	Interstate USF	586,685	1,423,062	(836,377)	(58.8)	1,423,062
4	Long Distance Network	0	0	0	0.0	0
	Network Access Svces:					
5	Intrastate	2,328,801	2,328,801	0	0.0	2,328,801
6	Interstate	0	0	0	0.0	0
7	Miscellaneous	117,800	231,279	(113,479)	(49.1)	231,279
8	LESS: Uncollectible Rev.	(83,092)	(66,318)	(16,774)	25.3	(66,318)
9	**Total Oper. Revenues**	**11,272,639**	**10,902,965**	**369,674**	**3.4**	**10,902,965**
OPERATING EXPENSES:						
10	Plant Specific	1,396,364	1,328,162	68,202	5.1	1,328,162
11	Plant Non-Specific (less depr.)	576,530	552,986	23,544	4.3	552,986
12	Depreciation & Amortization	3,428,593	3,403,352	25,241	0.7	3,403,352
13	Customer Operations	914,454	874,690	39,764	4.5	874,690
14	Corporate Operations	1,509,213	1,420,451	88,762	6.2	1,420,451
15	**Total Oper. Expenses**	**7,825,154**	**7,579,641**	**245,513**	**3.2**	**7,579,641**
TAXES:						
16	Taxes Other Than Income	217,748	214,699	3,049	1.4	214,699
17	State Income Taxes	257,084	247,457	9,627	3.9	247,457
18	Federal Income Taxes	901,375	867,622	33,753	3.9	867,622
19	**Total Operating Taxes**	**1,376,207**	**1,329,778**	**46,429**	**3.5**	**1,329,778**
20	**Net Revenues**	**2,071,278**	**1,993,546**	**77,732**	**3.9**	**1,993,546**
AVERAGE RATE BASE						
21	Telephone Plant-in-Service	46,220,415	45,736,962	483,453	1.1	45,736,962
22	Tel. Plt Under Construction	874,276	615,094	259,182	42.1	615,094
23	Mat & Supplies	244,271	240,241	4,030	1.7	240,241
24	Working Cash	439,210	385,947	53,263	13.8	385,947
25	Less: Deprec. Res.	(24,992,973)	(24,794,965)	(198,008)	0.8	(24,794,965)
26	Def. Taxes	(2,059,698)	(2,239,926)	180,228	(8.0)	(2,239,926)
27	Customer Deposit	(12,745)	(7,978)	(4,767)	59.8	(7,978)
28	Rural Telephone Bank (RTB) Stock	0	0	0	0.0	0
29	**Total Rate Base**	**20,712,756**	**19,935,375**	**777,381**	**3.9**	**19,935,375**
30	**Rate of Return**	**10.00%**	**10.00%**	**0.00%**		**10.00%**

APPENDIX D

THE VOLCANO TELEPHONE COMPANY
ADOPTED NET-TO-GROSS MULTIPLIER
INTRASTATE REVENUE REQUIREMENT AND CHCF-A SUPPORT
TEST YEAR 2003

	NET-TO-GROSS MULTIPLIER	
1	Gross revenues	1.00000
2	Uncollectibles	- *
3	Net Revenues	1.00000
4	Corporate State Franchise Tax Rate (CCFT) at 8.84% (Tax Rate times Line 3	0.08840
5	Federal Taxable Income at 34.0%(Line 3 less Line 4)	0.91160
6	Federal Income Tax (Tax Rate time Line 5)	0.30994
7	Net Income (Line 5 less Line 6)	0.60166
8	**NET-TO-GROSS MULTIPLIER (Line 1 divided by Line 7)**	**1.66207**
	INTRASTATE REVENUE REQUIREMENT	
9	Adopted State Rate Base	$19,935,375
10	Net Revenues Adopted at 10.00% (Line 9 times 10%)	$1,993,538
11	Net Revenues at present rates	$3,309,378
12	Change in net revenues (Line 10 less Line 11)	($1,315,840)
13	**TOTAL INTRASTATE REVENUE REQUIREMENT CHANGE (Line 8*Line 12**	**($2,187,018)**
	CHCF-A SUPPORT	
14	2003 CHCF-A SUPPORT AT PRESENT RATES	$5,962,475
15	**ADOPTED CHCF-A SUPPORT**	**$3,775,457**

* Uncollectibles are included in Line 1, Gross revenues.